



**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Financial Statements

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 600  
701 West Eighth Avenue  
Anchorage, AK 99501

## Independent Auditors' Report

Division of Retirement and Benefits and  
Members of the Alaska Public Employees' Retirement Board  
State of Alaska Deferred Compensation Plan:

We have audited the accompanying statements of fiduciary net assets of the State of Alaska Deferred Compensation Plan (Plan), a Component Unit of the State of Alaska, as of December 31, 2003 and 2002, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the State of Alaska Deferred Compensation Plan as of December 31, 2003 and 2002, and the changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2, the Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*, as amended, effective January 1, 2002.

The accompanying required supplementary information of management's discussion and analysis on pages 2 to 5 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

June 18, 2004

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

December 31, 2003 and 2002

The objective of Management's Discussion and Analysis is to help readers of the Deferred Compensation Plan (the Plan) financial statements better understand the Plan's financial position and operating activities for the years ended December 31, 2003 and 2002. This discussion should be read in conjunction with the financial statements and notes to the financial statements.

**The Plan**

The Plan is a defined contribution plan and was created by State of Alaska Statutes issued May 31, 1974, and was restated in January 1, 2002, and most recently amended April 1, 2003. It is a deferred compensation plan under Section 457 of the Internal Revenue Code and is available to all permanent employees, long-term nonpermanent employees, or elected officials of the State of Alaska (State) who have completed a full pay period of employment. Participants in the Plan authorize the State to reduce their current salary so that they can receive the amount deferred at a later date. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency, within the definition allowed by the applicable Internal Revenue Code. As of December 31, 2003 and 2002, the Plan had approximately 7,900 and 7,700 participants, respectively.

The Division of Retirement and Benefits is responsible for plan administration and recordkeeping. The Alaska State Pension Investment Board is responsible for the specific investment of moneys in the Plan.

**Financial Highlights**

- The net assets held in trust for benefits at December 31, 2003 and 2002, are \$412.4 million and \$348.3 million, respectively. The net assets represent employee contributions and net investment income.
- The net assets of the Plan at December 31, 2003 increased by \$64.1 million, or approximately 18.4%, from the prior year. The net assets of the Plan at December 31, 2002 decreased by \$38.9 million, or approximately 10% from the prior year.
- The Plan incurred a net investment gain of \$61.1 million in the 2003 calendar year, compared to a \$33.0 million investment loss in the 2002 calendar year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Plan's financial statements, which are comprised of the following:

- Statements of Fiduciary Net Assets
- Statements of Changes in Fiduciary Net Assets
- Notes to the Financial Statements

*Statements of Fiduciary Net Assets* – presents information on the Plan's assets and liabilities and the resulting net assets held in trust for pension and insurance benefits. This statement reflects the Plan's investments at fair market value, along with cash and short-term investments and receivables at December 31, 2003 and 2002.

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

December 31, 2003 and 2002

*Statement of Changes in Fiduciary Net Assets* – presents information showing how the Plan's net assets held in trust for benefits changed during the years ended December 31, 2003 and 2002. It reflects contributions by employees along with net investment income (or losses) during the period from individual participant directed investing activities. Deductions for participant withdrawals, benefit payments, and administrative expenses are also presented.

*Notes to the Financial Statements* – provides additional information that is essential to a full understanding of the data provided in the financial statements.

**Investments**

The Plan is participant directed, which means that the Plan's participants decide in which options to invest. Of total Plan Fiduciary Net Assets of \$412.4 billion at December 31, 2003, 99.5% of which, or \$410.3 billion, are specifically allocated to individual participant accounts. Of total Plan Fiduciary Net Assets of \$348.3 million at December 31, 2002, 99.4% of which, or \$346.3 million, are specifically allocated to individual participant accounts.

Each participant designates how his or her contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

As of December 31, 2003, the following funds are available to participants for investment.

**Collective Investment Funds**

*Equity Fund* – this fund invests in diversified common stocks of high-quality growth companies for long-term capital growth, with income a secondary consideration. This investment option is only available to participants whose contributions were originally invested with the Hartford Life Insurance Company, and have since remained with Hartford.

*Bond Fund* – this fund invests in investment grade corporate and government bonds and other debt securities. This investment option is only available to participants whose contributions were originally invested with the Hartford Life Insurance Company, and have since remained with Hartford.

*International Equity Fund* – this fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such common stocks.

*Small CAP Stock Trust Fund* – this fund invests at least 65% of its total assets in the stocks and equity-related securities of small companies.

*Citizens Core Growth Fund* – this fund invests in stocks and bonds of U.S. and international companies and governments, with an emphasis on those that are managed in a socially responsible manner.

*S&P 500 Index Fund* – this fund buys and holds virtually all of the stocks in the S&P 500 Index. The fund is designed to hold the same stocks in the same proportions as in the index itself.

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

December 31, 2003 and 2002

*Tactical Asset Allocation Fund* – this fund invests in a mix of stocks and bonds, sometimes in a combination with a money market fund. The fund relies on a computer-based model to determine the allocation of index funds.

*Global Balanced Fund* – this fund invests in stocks and bonds of U.S. and international companies and government bonds issued by the U.S. and other governments.

*Government/Credit Bond Fund* – this fund buys and holds representative portfolios of the securities included in the Lehman Brothers Government/Credit Bond Index. The fund seeks to closely match the Index's total rate of return.

*Intermediate Bond Fund* – this fund buys and holds representative securities included in the Lehman Brothers Intermediate Bond Index. The fund seeks to closely match the Index's total rate of return.

**Interest Income Fund**

*Interest Income Fund* – this fund invests primarily in synthetic investment contracts, including underlying securities which support such contracts issued by U.S. and Canadian insurance companies, U.S. banks and U.S. branches of foreign banks and meet high quality and credit standards.

**Participant Directed Investments at December 31 Year End (000's Omitted)**

	<u>2003</u>	<u>2002</u>
S&P 500 Index Fund	\$ 127,336	96,389
Interest Income Fund	122,723	119,771
Small Cap Stock Trust Fund	46,684	33,620
Government \ Credit Bond Fund	29,332	34,268
Global Balanced Fund	26,326	16,877
Tactical Asset Allocation Fund	21,331	17,259
International Equity Fund	20,008	10,429
Intermediate Bond Fund	11,362	13,281
Citizens Core Growth Fund	3,276	1,952
Equity Fund	1,815	2,220
Bond Fund	156	246

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

December 31, 2003 and 2002

**Investment Returns for the 12-Month Periods Ended December 31, 2003 and 2002 (Unaudited)**

	<u>2003</u> <u>1-Year actual</u>	<u>2002</u> <u>1-Year actual</u>
International Equity Fund	47.97%	(15.80)%
Small Cap Trust Fund	34.72	(15.06)
Citizens Core Growth Fund	24.00	(25.24)
S&P 500 Index Fund	28.59	(22.08)
Global Balanced Fund	28.05	(11.63)
Tactical Asset Allocation Fund	17.00	(11.89)
Government \ Credit Bond Fund	4.62	(10.89)
Intermediate Bond Fund	2.17	(9.71)
Interest Income Fund	4.69	(5.68)

The Equity Fund and Bond Fund have both been closed to participant use since 1986. Because of the closed nature of the funds, a rate of return on a fully comparable basis is not provided. However, both funds closely mirror funds generally of the same asset composition description that are actively available.

The positive change in the investment returns is due to the improved investment market in 2003.

**Fiduciary Responsibilities**

The Alaska State Pension Investment Board, the Plan Administrator, and the Commissioner of Administration are co-fiduciaries of the Plan. The assets of the plan can only be used for the exclusive benefit of the plan's participants, beneficiaries, and alternate payees.

**Request For Information**

Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Alaska Division of Retirement & Benefits  
Alaska Deferred Compensation Plan  
PO Box 110203  
Juneau, Alaska 99811-0203

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Statements of Fiduciary Net Assets

December 31, 2003 and 2002

(In thousands)

	<u>2003</u>	<u>2002</u>
Current assets:		
Participant contributions receivable	\$ 1,551	1,412
Investments:		
Collective investment funds, at fair value:		
Participant-directed	287,626	226,541
Money market fund	499	583
	<u>288,125</u>	<u>227,124</u>
Interest income fund:		
Synthetic investment contracts, at contract value	114,573	113,100
Cash and cash equivalents, at fair value	8,150	6,671
	<u>122,723</u>	<u>119,771</u>
Total investments	<u>410,848</u>	<u>346,895</u>
Total assets	<u>412,399</u>	<u>348,307</u>
Commitments and contingencies		
Net assets held in trust for individuals, organizations, and other governments	\$ <u>412,399</u>	<u>348,307</u>

See accompanying notes to financial statements.

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Statements of Changes in Fiduciary Net Assets

Years ended December 31, 2003 and 2002

(In thousands)

	<u>2003</u>	<u>2002</u>
Additions:		
Participant contributions	\$ 30,383	29,575
Investment income (loss):		
Net appreciation (depreciation) in fair market value of investments	55,847	(39,132)
Interest income	<u>5,281</u>	<u>6,179</u>
Net investment income (loss)	<u>61,128</u>	<u>(32,953)</u>
Total additions	<u>91,511</u>	<u>(3,378)</u>
Deductions:		
Benefits paid to participants and purchases of annuity contracts	26,708	34,645
Administrative expenses	<u>711</u>	<u>836</u>
Total deductions	<u>27,419</u>	<u>35,481</u>
Net increase (decrease) in net assets held in trust for individuals, organizations, and other governments	64,092	(38,859)
Net assets, beginning of year	<u>348,307</u>	<u>387,166</u>
Net assets, end of year	<u>\$ 412,399</u>	<u>348,307</u>

See accompanying notes to financial statements.



**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Notes to Financial Statements

December 31, 2003 and 2002

**(1) Description**

The following brief description of the State of Alaska Deferred Compensation Plan (Plan), a defined contribution plan, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

**(a) General**

The Plan was created by State of Alaska (State) Statutes issued May 31, 1974, and was most recently amended and restated January 1, 2002 with a subsequent amendment effective April 1, 2003. It is a deferred compensation plan under Section 457 of the Internal Revenue Code and is available to all permanent employees or elected officials of the State (and with the April 1, 2003 amendment all long term nonpermanent employees) who have completed a full pay period of employment. Participants in the Plan authorize the State to reduce their current salary so that they can receive the amount deferred at a later date. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency, within the definition allowed by the applicable Internal Revenue Code. As of December 31, 2003 and 2002, the Plan had approximately 7900 and 7,700 participants, respectively.

As a result of the passage of The Small Business Job Protection Act of 1996 (SBJPA), all amounts deferred, including amounts deferred before the effective date of the new law, under an eligible 457 plan must be held in a trust for the exclusive benefit of employees and beneficiaries. This new law repealed the requirement that a Section 457 plan sponsored by a government be solely the property of the employer, subject only to the claims of the employer's general creditors. The trust requirement generally applies to assets and income held by a plan on and after the date of enactment of the SBJPA. For any plan in existence on the date of enactment of the SBJPA, a trust need not be established before January 1, 2000.

As to the State of Alaska Deferred Compensation Plan, the Plan Document was amended effective January 1, 1997 to recognize and establish the Trust requirement for the Plan. The formal trust documents were completed by December 31, 1998.

The plan was completely restated effective January 1, 2002 for compliance with the Economic Growth and Tax Relief Reconciliation Act of 2001 and most recently amended April 1, 2003.

The Division of Retirement and Benefits is responsible for plan administration and recordkeeping. The Alaska State Pension Investment Board is responsible for the specific investment of moneys in the Plan.

**(b) Contributions**

Employees who choose to participate in the Plan contribute a minimum of fifty dollars a month (\$600 per year). Under the current law, the maximum amount that can be deferred in a year is the lesser of \$13,000 for participants under age 50 and \$16,000 for participants over age 50 or 50% of the participant's includable compensation. Includable compensation is the amount of gross earnings after contributions to Supplemental Benefits System, Public Employees' Retirement System or

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Notes to Financial Statements

December 31, 2003 and 2002

Teachers' Retirement System. However, for each of the participant's last three calendar years ending prior to normal retirement age, a "catch-up limitation" applies which allows larger contributions (up to \$26,000 in 2004 with increasing limits in successive years). Participants vest automatically in all of their contributions and earnings on those contributions.

(c) ***Participant Accounts***

Participant accounts are self-directed with respect to investment options. At December 31, 2003 and 2002, participants had the following investment options:

**Collective Investment Funds**

*Equity Fund* – this fund invests in diversified common stocks of high-quality growth companies for long-term capital growth, with income a secondary consideration. This investment option is only available to participants whose contributions were originally invested with the Hartford Life Insurance Company, and have since remained with Hartford.

*Bond Fund* – this fund invests in investment grade corporate and government bonds and other debt securities. This investment option is only available to participants whose contributions were originally invested with the Hartford Life Insurance Company, and have since remained with Hartford.

*International Equity Fund* – this fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such common stocks.

*Small CAP Stock Trust Fund* – this fund invests at least 65% of its total assets in the stocks and equity-related securities of small companies.

*Citizens Core Growth Fund* – this fund invests in stocks and bonds of U.S. and international companies and governments, with an emphasis on those that are managed in a socially responsible manner.

*S&P 500 Index Fund* – this fund buys and holds virtually all of the stocks in the S&P 500 Index. The fund is designed to hold the same stocks in the same proportions as in the index itself.

*Tactical Asset Allocation Fund* – this fund invests in a mix of stocks and bonds, sometimes in a combination with a money market fund. The fund relies on a computer-based model to determine the allocation of index funds.

*Global Balanced Fund* – this fund invests in stocks and bonds of U.S. and international companies and government bonds issued by the U.S. and other governments.

*Government/Credit Bond Fund* – this fund buys and holds representative portfolios of the securities included in the Lehman Brothers Government/Credit Bond Index. The fund seeks to closely match the Index's total rate of return.

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Notes to Financial Statements

December 31, 2003 and 2002

*Intermediate Bond Fund* – this fund buys and holds representative securities included in the Lehman Brothers Intermediate Bond Index. The fund seeks to closely match the Index's total rate of return.

**Interest Income Fund**

*Interest Income Fund* – this fund invests primarily in synthetic investment contracts, including underlying securities which support such contracts issued by U.S. and Canadian insurance companies, U.S. banks and U.S. branches of foreign banks and meet high quality and credit standards.

Each participant designates how his or her contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

A recordkeeping/administrative fee is deducted monthly from each participant's account, applied pro rata to all the funds the member participates in. This fee is for all costs incurred by the recordkeeper and by the State. The investment management fees are netted out of the funds' performance.

**(d) Payment of Benefits**

Participants are eligible to withdraw their account balance upon termination in the form of a lump sum, one of various annuities, or a periodic payment option, unless the participant elects to defer commencement of benefits. The deferred benefit commencement date can be no later than April 1 of the year after the participant would have turned age 70-1/2. Payment of benefits to a participant commences sixty days after termination or the deferred benefit commencement date, as applicable.

Participants may request a hardship withdrawal for an unforeseeable emergency, within the definition allowed by the applicable Internal Revenue Code. Hardship withdrawals are received as lump sum distributions and must be approved by the plan administrator.

The Plan purchases annuity contracts from an insurance company. The annuity contracts are excluded from Plan assets.

**(e) Income Taxes**

The Plan is exempt from federal income taxes under the provisions of section 501(a) of the Internal Revenue Code.

**(f) Termination, Partial Termination, or Complete Discontinuance of Contributions**

Although the State has established the Plan with the bona fide intention and expectation that it will continue the Plan indefinitely, the State may in its sole and absolute discretion terminate the Plan in whole or in part at any time without liability whatsoever for such termination. If the Plan shall be terminated, the participants in the Plan will be deemed to have withdrawn from the Plan as of the date of such termination. Deferred compensation shall thereupon cease. Upon Plan termination, each

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Notes to Financial Statements

December 31, 2003 and 2002

participant or beneficiary shall be given the opportunity to elect a benefit commencement date and form of payment.

**(2) Summary of Significant Accounting Policies**

**(a) *Accounting Basis***

The Plan utilizes the economic resources measurement focus and the accrual method of accounting. In preparing the financial statements, the plan administrator is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, and additions and deductions for the reporting period. Actual results could differ from those estimates.

**(b) *Valuation of Collective Investment Funds***

The Plan's investments in Collective Investment Funds (note 3), held in trust, are stated at fair market value based on the unit value as reported by the trustees multiplied by the number of units held by the Plan. The unit value is determined by the trustees based on the fair market value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

**(c) *Valuation of Synthetic Investment Contracts***

The Plan's investments in fully benefit responsive synthetic investment contracts (note 4) are stated at contract values which include contributions made under the contracts, plus earnings, less investment expenses and participant withdrawals paid to terminated members.

**(d) *Contributions Receivable***

Contributions applicable to wages earned through the Plan's year-end are accrued. These contributions are considered fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary.

**(e) *GASB Statement No. 34***

The Plan adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34) on January 1, 2002, concurrent with the State of Alaska's adoption of GASB No. 34. This statement, known as the "reporting model" statement, affects the way the Plan presents financial information. GASB No. 34 requires the basic financial statements of fiduciary funds to include statements of fiduciary net assets and statements of changes in fiduciary net assets. Modifications made to the Plan's financial reporting model as a result of the adoption of GASB No. 34 include presentation of management's discussion and analysis (as required supplementary information) and presentation of assets and liabilities in a classified format.

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Notes to Financial Statements

December 31, 2003 and 2002

**(3) Collective Investment Funds**

The Plan's investments at December 31 include the following collective investment funds:

	<u>Units owned</u>	<u>Unit value</u>	<u>Balance</u> (In thousands)
2003:			
Equity funds:			
International Equity Fund	1,139,424	\$ 17.560	20,008
Small CAP Stock Trust Fund	1,602,610	29.130	46,684 *
S & P 500 Index Fund	3,900,023	32.650	127,336 *
Citizens Core Growth Fund	214,937	15.240	3,276
Equity Fund, actively managed	103,840	17.481	1,815
			<u>199,119</u>
Bond and debt securities funds:			
Government/Credit Bond Fund	1,385,820	21.166	29,332 *
Intermediate Bond Fund	622,774	18.244	11,362
Bond Fund, actively managed	22,603	6.899	156
			<u>40,850</u>
Bond and equity funds:			
Tactical Asset Allocation Fund	2,279,001	9.360	21,331 *
Global Balanced Fund	1,040,949	25.290	26,326 *
			<u>47,657</u>
Money Market Fund	34,285	14.539	499
Total collective investment funds		\$	<u><u>288,125</u></u>

\*Represents five percent or greater of plan assets at December 31

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Notes to Financial Statements

December 31, 2003 and 2002

	<u>Units owned</u>	<u>Unit value</u>	<u>Balance</u> (In thousands)
2002:			
Equity funds:			
International Equity Fund	871,972	\$ 11.960	10,429
Small CAP Stock Trust Fund	1,555,061	21.620	33,620 *
S & P 500 Index Fund	3,796,359	25.390	96,389 *
Citizens Core Growth Fund	158,834	12.290	1,952
Equity Fund, actively managed	158,890	13.961	2,220
			<u>144,610</u>
Bond and debt securities funds:			
Government/Credit Bond Fund	1,693,782	20.232	34,268 *
Intermediate Bond Fund	743,714	17.857	13,281
Bond Fund, actively managed	38,091	6.461	246
			<u>47,795</u>
Bond and equity funds:			
Tactical Asset Allocation Fund	2,157,339	8.000	17,259
Global Balanced Fund	854,534	19.750	16,877
			<u>34,136</u>
Money Market Fund	42,160	13.827	583
Total collective investment funds		\$	<u><u>227,124</u></u>

\*Represents five percent or greater of plan assets at December 31

**STATE OF ALASKA  
DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Notes to Financial Statements

December 31, 2003 and 2002

**(4) Changes in Fiduciary Net Assets**

During the years ended December 31, 2003 and 2002 the following changes in fiduciary net assets by fund took place (in thousands):

		Participant directed					
		Equity Fund	Bond Fund	International Equity Fund	Small CAP Stock Trust Fund	Citizens Core Growth Fund	S&P 500 Index Fund
2003:							
Additions:							
Participant contributions	\$	—	—	1,276	3,212	552	9,365
Investment income (loss):							
Net appreciation (depreciation) in fair market value of investments		439	11	5,605	11,606	559	27,803
Interest income		—	—	—	—	—	—
Net investment income (loss)		439	11	5,605	11,606	559	27,803
Total additions		439	11	6,881	14,818	1,111	37,168
Deductions:							
Benefits paid to participants and purchases of annuity contracts		124	—	872	2,185	339	6,469
Administrative expenses:							
Actual fees paid		—	—	—	—	—	—
Fees deducted from participant accounts		—	—	22	63	4	181
Total deductions		124	—	894	2,248	343	6,650
Net increase (decrease) prior to interfund transfers		315	11	5,987	12,570	768	30,518
Interfund transfers		(720)	(101)	3,592	494	556	429
Net increase (decrease) in net assets held in trust for individuals, organizations, and other governments		(405)	(90)	9,579	13,064	1,324	30,947
Net assets, beginning of year		2,220	246	10,429	33,620	1,952	96,389
Net assets, end of year	\$	1,815	156	20,008	46,684	3,276	127,336

Tactical Asset Allocation Fund	Global Balanced Fund	Government/ Credit Bond Fund	Intermediate Bond Fund	Interest Income Fund	Nonparticipant directed		Total
					Money Market Fund	Participant contributions receivable	
2,304	2,180	3,574	1,216	6,565	—	139	30,383
3,015	5,050	1,490	269	—	—	—	55,847
—	—	—	—	5,279	2	—	5,281
3,015	5,050	1,490	269	5,279	2	—	61,128
5,319	7,230	5,064	1,485	11,844	2	139	91,511
1,041	1,293	3,109	1,119	10,157	—	—	26,708
—	—	—	—	—	711	—	711
32	33	59	22	208	(624)	—	—
1,073	1,326	3,168	1,141	10,365	87	—	27,419
4,246	5,904	1,896	344	1,479	(85)	139	64,092
(174)	3,545	(6,831)	(2,263)	1,473	—	—	—
4,072	9,449	(4,935)	(1,919)	2,952	(85)	139	64,092
17,259	16,877	34,268	13,281	119,771	583	1,412	348,307
21,331	26,326	29,333	11,362	122,723	498	1,551	412,399



**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Notes to Financial Statements

December 31, 2003 and 2002

		Participant directed					
		Equity Fund	Bond Fund	International Equity Fund	Small CAP Stock Trust Fund	Citizens Core Growth Fund	S&P 500 Index Fund
2002:							
Additions:							
Participant contributions	\$	—	—	1,190	3,424	349	10,373
Investment income (loss):							
Net appreciation (depreciation) in fair market value of investments		(750)	20	(2,076)	(6,441)	(727)	(28,311)
Interest income		—	—	—	—	—	—
Net investment income (loss)		(750)	20	(2,076)	(6,441)	(727)	(28,311)
Total additions		(750)	20	(886)	(3,017)	(378)	(17,938)
Deductions:							
Benefits paid to participants and purchases of annuity contracts		111	—	997	2,783	187	8,759
Administrative expenses:							
Actual fees paid		—	—	—	—	—	—
Fees deducted from participant accounts		—	—	22	68	4	203
Total deductions		111	—	1,019	2,851	191	8,962
Net increase (decrease) prior to interfund transfers		(861)	20	(1,905)	(5,868)	(569)	(26,900)
Interfund transfers		(91)	(9)	421	(1,183)	(164)	(5,933)
Net increase (decrease) in net assets held in trust for individuals, organizations, and other governments		(952)	11	(1,484)	(7,051)	(733)	(32,833)
Net assets, beginning of year		3,172	235	11,913	40,671	2,685	129,222
Net assets, end of year	\$	2,220	246	10,429	33,620	1,952	96,389

Tactical Asset Allocation Fund	Global Balanced Fund	Government/ Credit Bond Fund	Intermediate Bond Fund	Interest Income Fund	Nonparticipant directed		Total
					Money Market Fund	Participant contributions receivable	
2,411	2,007	2,791	1,055	5,879	—	96	29,575
(2,511)	(2,348)	3,004	1,008	—	—	—	(39,132)
—	—	—	—	6,176	3	—	6,179
(2,511)	(2,348)	3,004	1,008	6,176	3	—	(32,953)
(100)	(341)	5,795	2,063	12,055	3	96	(3,378)
1,449	1,223	3,084	1,393	14,659	—	—	34,645
—	—	—	—	—	836	—	836
35	32	52	20	212	(648)	—	—
1,484	1,255	3,136	1,413	14,871	188	—	35,481
(1,584)	(1,596)	2,659	650	(2,816)	(185)	96	(38,859)
(1,916)	43	3,350	2,110	3,372	—	—	—
(3,500)	(1,553)	6,009	2,760	556	(185)	96	(38,859)
20,759	18,430	28,259	10,521	119,215	768	1,316	387,166
17,259	16,877	34,268	13,281	119,771	583	1,412	348,307

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Notes to Financial Statements

December 31, 2003 and 2002

**(5) Synthetic Investment Contracts**

Accounts and terms of synthetic investment contracts in effect at December 31 are as follows (in thousands):

Contract issuer	Contract year	Contract termination	Interest rate	2003	2002
Union Bank Switzerland	2000	Open	5.32%	\$ 22,434	24,061
State Street Bank	2000	Open	5.32%	22,435	24,062
Caisse Des Depots	1999	1/20/07	3.96%	24,003	22,395
Rabobank Nederland	2003	1/20/07	3.96%	24,000	—
Rabobank Nederland	1997	10/15/03	4.95%	—	22,391
Bank of America	2003	1/20/07	3.96%	21,701	—
National Westminster Bank	1995	January 2003		—	20,191
				<u>\$ 114,573</u>	<u>113,100</u>

All synthetic contracts with deposits at December 31, 2003 and 2002, represent five percent or greater of plan assets.

**(a) Caisse Des Depots**

In 1999, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Caisse Des Depots. This financial institution maintains net cumulative deposits of \$18,860 in a separately managed structured payout synthetic investment portfolio. The account is credited with earnings, less administrative expenses charged by the financial institution and participant withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2003 and 2002 was \$24,003 and \$22,395, respectively as reported by Caisse Des Depots, and the market value of the portfolio at December 31, 2003 and 2002 was \$24,467 and \$23,230 respectively.

**(b) Union Bank Switzerland**

In 2000, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Union Bank Switzerland. This financial institution maintains net cumulative deposits of \$17,836 in a separately managed constant duration synthetic investment portfolio. The account is credited with earnings, less administrative expenses charged by the financial institution and participant withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2003 and 2002 was \$22,434 and \$24,061, respectively as reported by Union Bank Switzerland and the market value of the portfolio at December 31, 2003 and 2002 was \$23,514 and \$25,545 respectively.

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Notes to Financial Statements

December 31, 2003 and 2002

**(c) State Street Bank**

In 2000, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with State Street Bank. This financial institution maintains net cumulative deposits of \$17,836 in a separately managed constant duration synthetic investment portfolio. The account is credited with earnings, less administrative expenses charged by the financial institution and participant withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2003 and 2002 was \$22,435 and \$24,062, respectively as reported by State Street Bank, and the market value of the portfolio at December 31, 2003 and 2002 was \$23,516 and \$25,546 respectively.

**(d) Rabobank Nederland**

In 1997, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Rabobank Nederland. This financial institution maintained, as of the day prior to the October 2003 contract termination date, net cumulative deposits of \$15,744 in a separately managed structured payout synthetic investment portfolio. The account was credited with earnings, less administrative expenses charged by the financial institution and participant withdrawals. The contract was included in the Plan's financial statements at contract value. It was fully benefit responsive. There were no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract terminated October 2003 with the transfer of \$23,757 from this contract to another contract. The contract value of the investment contract at December 31, 2003 and 2002 was \$0 and \$22,391 respectively as reported by Rabobank Nederland, and the market value of the portfolio at December 31, 2003 and 2002 was \$0 and \$23,227 respectively.

**(e) National Westminster Bank**

In 1995, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with National Westminster Bank. This financial institution maintained, as of the day prior to the January 2003 contract termination date, net cumulative deposits of \$10,777 in a separately managed structured payout synthetic investment portfolio. The account was credited with earnings, less administrative expenses charged by the financial institution and participant withdrawals. The contract was included in the Plan's financial statements at contract value. It was fully benefit responsive. There were no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract terminated January 2003 with the transfer of \$20,228 from this contract to another contract. The contract value of the investment contract at December 31, 2003 and 2002 was \$0 and \$20,191, respectively as reported by National Westminster Bank, and the market value of the portfolio at December 31, 2003 and 2002 was \$0 and \$20,944 respectively.

**(f) Rabobank Nederland**

In 2003, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Rabobank Nederland. This financial institution maintains net cumulative deposits of \$23,757 in a separately managed structured payout synthetic investment portfolio. The account is credited with earnings, less administrative expenses charged by the financial institution and participant

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Notes to Financial Statements

December 31, 2003 and 2002

withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2003 and 2002 was \$24,000 and \$0, respectively as reported by Rabobank Nederland, and the market value of the portfolio at December 31, 2003 and 2002 was \$24,463 and \$0 respectively.

**(g) Bank of America**

In 2003, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Bank of America. This financial institution maintains net cumulative deposits of \$20,829 in a separately managed structured payout synthetic investment portfolio. The account is credited with earnings, less administrative expenses charged by the financial institution and participant withdrawals. The contract is included in the Plan's financial statements at contract value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2003 and 2002 was \$21,701 and \$0, respectively as reported by Bank of America, and the market value of the portfolio at December 31, 2003 and 2002 was \$22,120 and \$0 respectively.

**STATE OF ALASKA**  
**DEFERRED COMPENSATION PLAN**  
(A Component Unit of the State of Alaska)

Notes to Financial Statements

December 31, 2003 and 2002

**(6) Credit Risk**

To provide an indication of the level of credit risk assumed by the Plan at December 31, 2003, investment securities are categorized as follows:

Category 1 – Insured or registered for which the securities are held by the State or its custodian in the Plan's name.

Category 2 – Uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Plan's name.

Category 3 – Uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the Plan's name.

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Not categorized</u>	<u>Carrying value</u>	<u>Fair market value</u>
Collective investment funds	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>288,125</u>	<u>288,125</u>	<u>288,125</u>
Interest income funds	\$ <u>—</u>	<u>—</u>	<u>—</u>	<u>122,723</u>	<u>122,723</u>	<u>126,230</u>

Investments in collective investment funds cannot be categorized into one of the above three risk categories because they represent interests in funds rather than ownership of specific securities.

Investments included in the interest income fund cannot be categorized into one of the above three risk categories because they represent interests in synthetic investment contracts which are not considered transferable financial instruments.